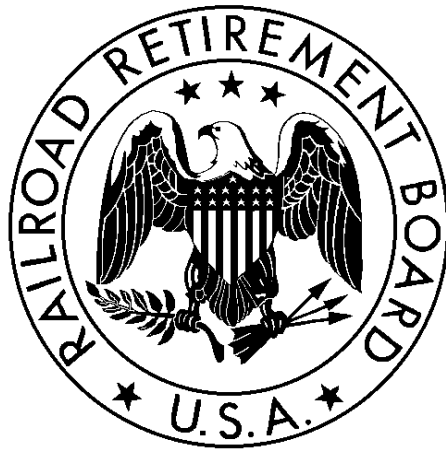


# **Railroad Unemployment Insurance System**

**Annual Report Required by Section 7105  
of the Technical and Miscellaneous  
Revenue Act of 1988**



**U.S. Railroad Retirement Board  
Bureau of the Actuary  
June 2003**

## ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

### I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2003.

### II. Recent Developments

The maximum daily benefit increased from \$50 to \$52 beginning July 1, 2002, and will increase to \$55 beginning July 1, 2003, and \$56 beginning July 1, 2004. The monthly tax base increased from \$1,050 in calendar year 2001 to \$1,100 in 2002, and to \$1,120 in 2003, based on increases in the railroad retirement tier I creditable base.

Average employment in calendar year 2002 was 227,000 (subject to later revision), 1,000 less than the most pessimistic assumption in last year's report. While actual unemployment usage is currently slightly higher than last year's intermediate assumption, actual sickness usage is somewhat lower, primarily due to an increase in recovery activity. This year's report predicts that the 2.5 percent surcharge in calendar year 2003 will be followed by a 1.5 percent surcharge in calendar years 2004-2005. A 1.5 percent surcharge is also probable for calendar year 2006.

Due to short-term cash flow problems, a \$7.8 million loan was taken from the Railroad Retirement Account in February 2002. The loan was fully repaid in May 2003.

### III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment levels, as occurred in the early 1980's, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thus adjusting the overall account balance to an appropriate level.

The three employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Social Security Administration's March 2003 Trustees Report, intermediate set of assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base and daily benefit rate assumptions.

#### IV. Results

Projections were made for the various components of income and outgo under each employment assumption for the 11 fiscal years 2003-2013. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables, one for each employment projection A, B, and C. The tables show (1) contributions, excluding the portion allocated to the Administration Fund, (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the taxable base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million, contributions are increased by a surcharge.

The June 30, 2001 balance<sup>1</sup> was \$53.0 million, \$3.0 million below the indexed \$50 million surcharge threshold of \$56.0 million, and a 2.5 percent surcharge was in effect in calendar year 2002. By June 30, 2002, the balance had fallen to \$39.7 million. Since the indexed \$50 million surcharge threshold was \$56.8 million, there is a 2.5 percent surcharge in calendar year 2003.

Under each employment assumption, the Account balance is expected to be above the indexed \$50 million threshold but below the indexed \$100 million threshold in June of 2003 and 2004. Consequently, a 1.5 percent surcharge is expected in calendar years 2004-2005. A 1.5 percent surcharge is also probable in calendar year 2006 and likely to occur periodically thereafter. The highest average contribution rate needed is the 4.99

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<sup>1</sup> The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

percent for calendar year 2003. This is well below the 12 percent maximum rate allowable.

Administrative expenses are assumed to be above the current level in fiscal years 2004-2013. Nevertheless, the 0.65 percent of taxable payroll allocated to the Administration Fund is more than sufficient to finance administrative expenses. When the balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all three employment assumptions, the balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

#### V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different employment assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and thereby maintain fund solvency.

**Table 1: Employment Assumptions Used in 2003 Report**

Calendar Year	Average Employment (thousands)		
	A	B	C
2002	227	227	227
2003	224	222	218
2004	222	216	210
2005	219	211	202
2006	216	206	194
2007	214	201	187
2008	211	196	180
2009	209	192	173
2010	206	187	167
2011	204	183	160
2012	201	179	154
2013	199	175	149

Employment assumptions A and B are based on the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Employment assumption A is the most optimistic of the three assumptions. Employment assumption B is intended to provide a "moderate" assumption. Employment assumption C follows the structure of assumptions A and B, except that it has declines in passenger employment and steeper declines in freight employment than employment assumptions A and B.

Employment assumptions A and B assume passenger employment remains level at 44,000. Non-passenger employment declines at a constant annual rate (1.5 percent for assumption A and 3.0 percent for assumption B). Employment assumption C assumes that passenger employment declines by 500 each year and non-passenger employment declines at a constant rate of 4.5 percent.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI  
Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2002	\$84,900	\$1,100	\$52
2003	87,000	1,120	55
2004	88,500	1,135	56
2005	91,800	1,170	56
2006	95,700	1,215	58
2007	99,600	1,255	60
2008	103,800	1,300	62
2009	108,300	1,345	65
2010	113,100	1,395	67
2011	117,900	1,450	69
2012	122,700	1,500	72
2013	127,800	1,550	75

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A  
(Dollar Amounts in Millions)

Fiscal Year	Account Contri- butions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2003	\$120.4	\$101.2	(\$2.5)	\$36.4	\$0.0	\$36.4	2003	4.99
2004	118.7	97.2	6.8	64.8	0.0	64.8	2004	3.91
2005	99.4	93.4	7.6	78.4	0.0	78.4	2005	3.68
2006	95.0	90.3	8.2	91.2	0.0	91.2	2006	3.51
2007	85.9	89.9	8.9	96.2	0.0	96.2	2007	3.00
2008	75.1	88.5	8.8	91.5	0.0	91.5	2008	2.75
2009	78.0	90.9	8.4	87.0	0.0	87.0	2009	3.06
2010	89.4	93.6	8.4	91.2	0.0	91.2	2010	3.29
2011	95.1	95.6	9.1	99.8	0.0	99.8	2011	3.25
2012	92.7	97.2	9.5	104.8	0.0	104.8	2012	3.04
2013	87.6	100.4	9.4	101.4	0.0	101.4	2013	2.88

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B  
(Dollar Amounts in Millions)

Fiscal Year	Account Contri- butions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2003	\$119.8	\$101.2	(\$2.5)	\$35.8	\$0.0	\$35.8	2003	4.99
2004	116.9	98.8	6.6	60.6	0.0	60.6	2004	3.92
2005	97.6	97.3	6.6	67.5	0.0	67.5	2005	3.76
2006	97.5	93.8	6.8	77.9	0.0	77.9	2006	3.84
2007	95.2	94.1	7.2	86.3	0.0	86.3	2007	3.55
2008	85.1	94.9	7.1	83.5	0.0	83.5	2008	3.15
2009	81.9	96.1	6.4	75.7	0.0	75.7	2009	3.28
2010	91.5	97.9	5.8	75.1	0.0	75.1	2010	3.68
2011	101.5	98.7	6.0	83.9	0.0	83.9	2011	3.82
2012	99.1	99.3	6.2	89.9	0.0	89.9	2012	3.45
2013	91.0	101.4	6.0	85.5	0.0	85.5	2013	3.27

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.



Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C  
(Dollar Amounts in Millions)

Fiscal Year	Account Contri- butions [1]	Net Benefit Payments	Other Income and Outgo [2]	Account Cash Balance Year End	Loan Balance Year End [3]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2003	\$118.6	\$101.2	(\$2.5)	\$34.6	\$0.0	\$34.6	2003	4.99
2004	114.6	103.8	6.0	51.5	0.0	51.5	2004	3.94
2005	97.2	103.7	5.4	50.4	0.0	50.4	2005	3.94
2006	102.4	103.1	4.9	54.5	0.0	54.5	2006	4.33
2007	109.9	104.3	4.8	65.0	0.0	65.0	2007	4.48
2008	107.3	104.5	4.9	72.6	0.0	72.6	2008	4.18
2009	98.6	104.4	4.4	71.2	0.0	71.2	2009	3.91
2010	95.6	104.9	3.5	65.4	0.0	65.4	2010	3.99
2011	100.1	104.0	2.9	64.4	0.0	64.4	2011	4.23
2012	103.1	103.7	2.4	66.2	0.0	66.2	2012	4.23
2013	99.9	103.5	1.7	64.3	0.0	64.3	2013	4.02

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] Income includes interest on investments and transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[3] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

**Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account  
(Dollar Amounts in Millions)**

Year	<u>Employment Assumption A</u>		<u>Employment Assumption B</u>		<u>Employment Assumption C</u>	
	Account	1.5 Percent Surcharge Threshold	Account	1.5 Percent Surcharge Threshold	Account	1.5 Percent Surcharge Threshold
2003	\$62.3	\$112.6	\$61.6	\$112.3	\$60.4	\$111.8
2004	88.1	113.1	84.0	111.6	75.4	109.3
2005	100.9	113.9	90.5	110.6	73.8	107.1
2006	113.9	116.1	101.1	111.6	78.3	106.4
2007	118.8	118.9	109.3	112.9	88.6	106.0
2008	114.3	121.6	106.7	113.9	96.2	105.6
2009	110.6	124.3	99.5	115.1	95.0	105.2
2010	114.8	127.3	98.9	116.6	89.0	104.8
2011	123.6	130.4	107.8	118.0	88.0	104.8
2012	128.9	133.9	113.9	119.9	90.0	104.4
2013	126.0	136.6	109.8	121.2	88.1	104.0

The June 30, 2002 accrual balance was \$39,708,270.49. The indexed 1.5 percent surcharge threshold was \$113,564,445 and the indexed 2.5 percent surcharge threshold was \$56,782,222.50.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold (not shown) is indexed from a \$50 million base.